

**Alger County Road Commission
Component Unit Financial Statements
For the Year Ended December 31, 2006**

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Alger County Road Commission	County Alger
Fiscal Year End 12/31/06	Opinion Date 3/30/07	Date Audit Report Submitted to State 6-26-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

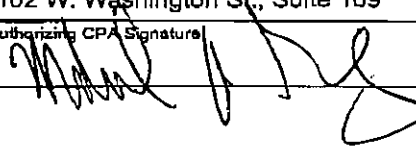
We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC			Telephone Number 906-225-1166	
Street Address 102 W. Washington St., Suite 109			City Marquette	State MI
			Zip 49855	
Authorizing CPA Signature 		Printed Name Michael Alan Greutz		License Number 1101027988

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alger County Road Commission
E 9264 M-28
Munising, Michigan 49862

We have audited the accompanying financial statements of the governmental activities and each major fund of the Alger County Road Commission, component unit of the County of Alger, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Alger County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alger County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the Alger County Road Commission as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2006 on our consideration of the Alger County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, and budgetary comparison information on pages 5 through 10 and 29 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of

Honorable Chairman and Members
of the Board of Commissioners
County of Alger, Michigan

management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alger County Road Commission's basic financial statements. The schedules listed as additional supplementary information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The additional supplementary information as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Using this Annual Report

The Alger County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) Identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Reporting the Road Commission's Major Funds

The Road Commission currently has two funds, the general operations fund and a debt service fund. All of the Road Commission's activities are accounted for in the general operations fund, except for the bond payments which are accounted for in the debt service fund. The general operations fund and debt service fund are governmental type funds. Our analysis of the Road Commission's major fund begins on page 13. The fund financial statements begin on page 15 and provide detailed information about the major fund.

- Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 95%, or \$3,194,067 from \$3,355,034 to \$6,549,101 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements decreased by \$236,622. Restricted net assets, those restricted mainly for debt service purposes, increased \$3,175. The investment in capital assets (net of related debt) increased by \$3,427,514.

The net income of \$3,194,067 was due to the following:

Net change in fund balance – total governmental funds	\$ (241,816)
Net change in capital assets	3,436,074
Proceeds from new debt – reclass to liability	(202,000)
Repayment of debt principal – reclass to liability	193,441
Change in compensated absences	8,368
TOTAL	<u>\$3,194,067</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Net assets as of December 31, 2005 and 2006 follow:

	2005	2006	Variance Increase (Decrease)
Current and Other Assets	\$2,108,575	\$1,923,677	\$(184,898)
Capital Assets	5,383,388	8,819,461	3,436,073
Total Assets	7,491,963	10,743,138	3,251,175
Long-Term Debt Outstanding	3,478,183	3,883,598	405,415
Other Liabilities	658,746	310,439	(348,307)
Total Liabilities	4,136,929	4,194,037	57,108
Net Assets			
Invested in Capital Assets			
Net of Debt	2,146,498	5,574,012	3,427,514
Restricted – Debt Service	140,962	144,137	3,175
Restricted – Operations	1,067,574	830,952	(236,622)
Total Net Assets	\$3,355,034	\$6,549,101	\$3,194,067

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2005 and 2006 follows:

	Governmental Activities 2005	Governmental Activities 2006	Increase (Decrease)
Program Revenue			
License and Permits	\$3,890	\$2,803	(\$1,087)
Federal Grants	984,977	1,932,663	947,686
State Grants	2,503,494	1,237,229	(1,266,265)
Michigan Transportation Funds	-	2,129,486	2,129,486
Contributions From Local Units	95,096	143,819	48,723
Charges for Services	1,143,233	1,175,538	32,305
Investment Earnings	35,264	42,377	7,113
Reimbursements	7,477	33,310	25,833
General Revenue			
Insurance Recoveries	-	-	-
Gain on Equipment Disposal	-	19,102	19,102
Sale of Land and Buildings	-	-	-
Total Revenue	4,773,431	6,716,327	1,942,896
Expenses			
Primary Road—Routine and Preventive Maintenance	597,608	\$732,045	134,437
Local Road—Routine and Preventive Maintenance	965,697	891,066	(74,631)
State Trunkline Maintenance	1,036,241	954,335	(81,906)
Net Equipment Expense	310,005	445,602	135,597

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	Governmental Activities 2005	Governmental Activities 2006	Increase (Decrease)
Net Administrative Expense	\$211,294	\$256,651	\$45,357
Non-Road Project	-	-	-
Infrastructure Depreciation	20,051	90,455	70,404
Compensated Absences	580	(8,368)	(8,948)
Interest Expense	176,913	160,474	(16,439)
Total Expenses	3,318,389	3,522,260	203,871
Change in Net Assets	\$1,455,042	\$3,194,067	\$1,739,025

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the General Operations Fund decreased \$241,816 as compared to an increase of \$65,439 in the fund balance for the year ended December 31, 2005. Total operating revenues were \$6,716,327, an increase of \$1,942,896 as compared to last year. This change in revenues resulted primarily from funds received in connection with the H-58 reconstruction project.

Total expenditures were \$7,160,143, an increase of \$2,452,151 as compared to last year. This change in expenditures resulted primarily from expenses related to the H-58 reconstruction project.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue and expenditure budget for 2006 was lower than the actual receipts by \$438,388.

Of the \$438,388, \$202,000 was proceeds from a note for the purchase of a used grader. The Road Commission was contacted by CAT and advised of the availability of a new year old machine at a reasonable price. In the best interest of the Road Commission it was purchased.

Additionally, \$209,660 was from a new Federal and State Grant for the completion of H-55. These funds were used for engineering services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had \$8,819,461 invested in capital assets, compared to the prior year, as follows:

	2005	2006	Total Percentage Change 2005 - 2006
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 49,332	\$ 49,332	-%
Land/Right-of-Way	-	-	N/A
Construction in Progress	-	-	N/A
Subtotal	49,332	49,332	-
Capital Assets Being Depreciated			
Delectable Assets	-	-	-
Buildings	3,856,684	3,729,482	3
Equipment	4,752,961	5,061,486	6
Yard and Storage	-	-	-
Infrastructure	1,836,495	5,360,698	192
Subtotal	10,446,140	14,151,666	35
Total Capital Assets	10,495,472	14,200,998	35
Total Accumulated Depreciation	(5,112,084)	(5,381,537)	(5)
Total Net Capital Assets	\$5,383,388	\$8,819,461	64%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$5,360,698, an addition of \$3,524,203. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

This year's major capital asset additions included the following:

Road Preservation/Structural Improvements	\$3,524,203
Road Equipment	376,638
Other Equipment	2,069
Total Additions	<u>\$3,902,910</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Un-audited) (Continued)

Debt

At the year end, the Road Commission had \$3,245,449 in bonds and installment purchase agreements versus \$3,236,890 last year, an increase of .26% as shown below:

	2005	2006	Variance	Total Percentage Change 2006/2005
Bonds Payable	\$2,705,000	\$2,650,000	\$(55,000)	(2.00)%
Installment Purchase Agreements	531,890	595,449	63,559	12.00%
Total	<u>\$3,236,890</u>	<u>\$3,245,449</u>	<u>\$ 8,559</u>	<u>(0.26)%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive the same amount of Michigan Transportation Fund revenues in 2007. The Road Commission received approximately 2% of its revenues from township contributions during 2007, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2007, we expect to receive at least \$3,100,000 in federal, state, and township aid for road projects, some of which was deferred from 2006. Some of these projects were released late in the year after the construction season.

The above items were considered when adopting the budget for 2007.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alger County Road Commission's administrative offices at E9264 N-28, Munising, Michigan 49862.

Alger County Road Commission

Statement of Net Assets

December 31, 2006

ASSETS

Cash	\$ 917,466
Accounts Receivable	
Michigan Transportation Funds	283,834
Trunkline Maintenance	144,401
State Highway - Other	235,634
Due on County Road Agreements	15,500
Sundry Accounts	257
Inventories:	
Road Materials	232,280
Equipment Parts and Materials	73,486
Prepaid Expense	20,819
Capital Assets - Net of Accumulated Depreciation	<u>8,819,461</u>
Total Assets	<u><u>\$ 10,743,138</u></u>

LIABILITIES AND FUND EQUITY

Current Liabilities:	
Accounts Payable	\$ 426
Due to State of Michigan	40,000
Accrued Payroll Liabilities	62,013
Non-Current Liabilities:	
Advances	240,790
Deferred Revenue - Forest Road (E) Funds	164,435
Bonds and Notes Payable - Due Within One Year	234,795
Bonds and Notes Payable - Due in More Than One Year	3,010,654
Vested Employees Benefits Payable	<u>232,924</u>
Total Liabilities	<u><u>4,194,037</u></u>

NET ASSETS

Investment in Capital Assets - Net of Related Debt	5,574,012
Restricted for Debt Service	144,137
Restricted for County Roads	<u>830,952</u>
Total Net Assets	<u><u>\$ 6,549,101</u></u>

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Activities

For the Year Ended December 31, 2006

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 732,045
Local Road Routine and Preventive Maintenance	891,066
State Trunkline Maintenance	954,335
Net Equipment Expense	445,602
Net Administrative	256,651
Non-Road Projects	-
Infrastructure Depreciation	90,455
Compensated Absences	(8,368)
Interest Expense	160,474
	<u>3,522,260</u>
Total Program Expenses	
Program Revenue	
Charges for Services	
License and Permits	2,803
Charges for Services	1,175,538
Reimbursements	33,310
Operating Grants and Contributions	
Michigan Transportation Funds	2,129,486
Investment Earnings	42,377
Capital Grants and Contributions	
Federal Grants	1,932,663
State Grants	1,237,229
Contributions from Local Units	143,819
	<u>6,697,225</u>
Total Program Revenues	
Net Program Revenue	<u>3,174,965</u>
General Revenue:	
Gain (loss) on Equipment Disposal	<u>19,102</u>
Total General Revenues	<u>19,102</u>
Change in Net Assets	3,194,067
Net Assets	
Beginning of Year	<u>3,355,034</u>
End of Year	<u>\$ 6,549,101</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Balance Sheet

December 31, 2006

	General Fund	Debt Service Fund	Total
ASSETS			
Cash	\$ 773,329	\$ 144,137	\$ 917,466
Accounts Receivable			
Michigan Transportation Funds	283,834	-	283,834
Trunkline Maintenance	144,401	-	144,401
State - Other	235,634	-	235,634
Due on County Road Agreements	15,500	-	15,500
Sundry Accounts	257	-	257
Inventories:			
Road Materials	232,280	-	232,280
Equipment Parts and Materials	73,486	-	73,486
Prepaid Expense	20,819	-	20,819
TOTAL ASSETS	\$ 1,779,540	\$ 144,137	\$ 1,923,677
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts Payable	\$ 208,426	\$ -	\$ 208,426
Due to State of Michigan	40,000	-	40,000
Accrued Payroll Liabilities	62,013	-	62,013
Advances	240,790	-	240,790
Deferred Revenue - Forest Road (E) Funds	164,435	-	164,435
Total Liabilities	715,664	-	715,664
Fund Equity:			
Reserved for Debt Service	-	144,137	144,137
Unreserved and Undesignated	1,063,876	-	1,063,876
Total Fund Equity	1,063,876	144,137	1,208,013
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,779,540	\$ 144,137	\$ 1,923,677

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets

December 31, 2006

Total Fund Balances for Governmental Funds		\$ 1,208,013
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,819,461
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Bond & Notes Payable - Current	(234,795)	
Bond & Notes Payable - Non-Current	(3,010,654)	
Compensated Absences	<u>(232,924)</u>	
		(3,478,373)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 6,549,101</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Revenue, Expenditures, and Changes in Fund Balance

For the Year Ended December 31, 2006

	General Operating Fund	Debt Service Fund	Total
Revenues:			
License and Permits	\$ 2,803	\$ -	\$ 2,803
Federal Sources	1,932,663	-	1,932,663
State Sources	3,366,715	-	3,366,715
Contributions from Local Units	143,819	-	143,819
Charges for Services	1,175,538	-	1,175,538
Interest and Rents	36,252	6,125	42,377
Other Revenue	52,412	-	52,412
Total Revenues	6,710,202	6,125	6,716,327
Expenditures:			
Public Works	6,803,902	-	6,803,902
Capital Outlay (net)	2,326	-	2,326
Debt Service	158,965	194,950	353,915
Total Expenditures	6,965,193	194,950	7,160,143
Excess of Revenues Over (Under) Expenditures	(254,991)	(188,825)	(443,816)
Other Financing Sources (Uses):			
Note Proceeds	202,000	-	202,000
Transfers In (Out)	(192,000)	192,000	-
Total Other Financing Sources (Uses)	10,000	192,000	202,000
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures	(244,991)	3,175	(241,816)
Fund Balance - January 1, 2006	1,308,867	140,962	1,449,829
Fund Balance - December 31, 2006	<u>\$ 1,063,876</u>	<u>\$ 144,137</u>	<u>\$ 1,208,013</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Statement of Revenues, Expenses, and Changes In
Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ (241,816)**

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays and infrastructure as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense - building and equipment	(337,883)	
Depreciation expense - infrastructure	(90,455)	
Capital outlays - building and equipment	378,707	
Capital outlays - infrastructure - primary	2,840,371	
Capital outlays - infrastructure - local	683,832	
Gain (loss) on disposal	<u>(38,498)</u>	3,436,074

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (202,000)

Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. 193,441

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 8,368

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 3,194,067**

See accompanying notes to the financial statements.

Alger County Road Commission
Notes to Financial Statements
December 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Alger County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alger County Road Commission.

(1) **Reporting Entity**

The Alger County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alger County Road Commission, a discretely presented component unit of Alger County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Debt Service Fund is used to control the activity regarding their bond payments. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund and Debt Service Fund.

(2) **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Alger County Road Commission. There are two funds reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund) and Debt Service Fund. These Funds are an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating and debt service funds are reported as major funds.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alger County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007 as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified in the following categories:

The cash and investments are classified into the following categories:

Petty Cash	\$150
Cash – Held with Road Commission – Bank Deposits	917,316
Total Cash	<u>\$917,466</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Alger and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were \$917,466 and the bank balance was \$944,625. The bank balance is categorized as follows:

Amount insured by FDIC	\$100,000
Amount uninsured and uncollateralized	844,625
	<u>\$944,625</u>

NOTE D – DEFERRED COMPENSATION PLAN:

The Alger County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer (Alger County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alger County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Alger County Road Commission for the current year was as follows:

	Beginning Balances 1/1/06	Additions	Deletions	Ending Balances 12/31/06
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 49,332	\$ -	\$ -	\$ 49,332
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>49,332</u>	<u>-</u>	<u>-</u>	<u>49,332</u>
Capital Assets Being Depreciated:				
Depletable Assets	-	-	-	-
Buildings	3,856,684	-	127,202	3,729,482
Road Equipment	4,544,538	376,638	70,182	4,850,994
Shop Equipment	93,341	-	-	93,341
Office Equipment	100,288	872	-	101,160
Engineers' Equipment	14,794	1,197	-	15,991
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	1,836,495	3,524,203	-	5,360,698
Subtotal	<u>10,446,140</u>	<u>3,902,910</u>	<u>197,384</u>	<u>14,151,666</u>
Less Accumulated Depreciation:				
Depletable Assets	-	-	-	-
Buildings	(813,924)	(85,586)	(92,950)	(806,560)
Road Equipment	(4,134,182)	(236,397)	(65,936)	(4,304,643)
Shop Equipment	(71,847)	(6,253)	-	(78,100)
Office Equipment	(59,571)	(9,194)	-	(68,765)
Engineers' Equipment	(12,508)	(453)	-	(12,961)
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	(20,052)	(90,456)	-	(110,508)
Subtotal	<u>(5,112,084)</u>	<u>(428,339)</u>	<u>(158,886)</u>	<u>(5,381,537)</u>
Net Capital Assets Being Depreciated	<u>5,334,056</u>	<u>3,474,571</u>	<u>38,498</u>	<u>8,770,129</u>
Total Net Capital Assets	<u>\$5,383,388</u>	<u>\$ 3,474,571</u>	<u>\$ 38,498</u>	<u>\$8,819,461</u>

Depreciation expense was charged to programs of the Alger County Road Commission as follows:

Equipment Expense:	
Direct	\$236,397
Indirect	91,839
Administrative Expense	9,647
Infrastructure	90,456
Total Depreciation Expense	<u>\$ 428,339</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Alger County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employee's Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Alger County Road Commission's competitive bargaining units and requires a contribution from the employees of 4.7% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2006, Alger County Road Commission's annual pension cost of \$100,620 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual Pension Cost (APC)	\$73,359	\$93,005	\$100,475
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	\$6,012,900	\$6,159,964	\$6,294,415
Actuarial Accrued Liability (AAL)	\$6,680,552	\$7,074,410	\$7,288,451
Unfunded AAL (UAAL)	\$667,652	\$914,446	\$994,036
Funded Ratio	90%	87%	86%
Covered Payroll	\$1,155,218	\$1,143,224	\$1,131,732
UAL as a Percentage of Covered Payroll	58%	80%	88%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$2,415,829 for contracted projects and \$-0- negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are

NOTE G – FEDERAL GRANTS (Continued):

included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the County's Single Audit.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 4 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$29,334 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The changes in long-term debt of the Road Commission may be summarized as follows:

Loans Payable	Balances January 1, 2006	Additions	Reductions	Balances December 31, 2006	Due Within One Year
Peoples State Bank:					
February 2002 loan	\$21,005	\$-	\$10,191	\$10,814	\$10,814
December 2003 loan #1	84,585	-	27,199	57,386	28,181
December 2003 loan #2	426,300	-	101,050	325,250	104,439
June 2006 loan	-	202,000	-	202,000	36,361
Michigan Transportation Fund:					
Notes payable	2,705,000	-	55,000	2,650,000	55,000
Vested Employee Benefits Payable:					
Vacation benefits	94,076	-	3,399	90,675	-
Sick leave benefits	147,217	-	4,670	142,247	-
TOTAL	<u>\$3,478,183</u>	<u>\$202,000</u>	<u>\$201,810</u>	<u>\$3,478,373</u>	<u>\$234,795</u>

Loans Payable – Equipment Purchases

The Road Commission borrowed various amounts from local banks to finance the purchase of various items of road equipment, which are pledged as security for the loans. The lenders, terms and annual principal and interest requirements are as follows:

NOTE I – GENERAL LONG-TERM DEBT (Continued):

**Peoples State Bank – February 2002 Loan
Tractor with Mower Attachment
Terms: Purchase price of \$48,800 at 4.91%
interest from February 2002 to February 2007**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2007	<u>\$10,814</u>	<u>\$ 527</u>

**Peoples State Bank – December 2003 – Loan #1
Snogo**

**Terms: Purchase price of \$110,670 at 3.94%
interest from December 2006 to December 2008**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$28,181	\$2,264
2008	<u>29,205</u>	<u>4,414</u>
	<u>\$57,386</u>	<u>\$6,678</u>

**Peoples State Bank – December 2003 – Loan #2
4 2006 Tandem Trucks**

**Terms: Purchase price of \$522,971 at 3.94%
interest from December 2006 to December 2009**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$104,439	\$12,837
2008	108,553	8,723
2009	<u>112,258</u>	<u>4,448</u>
	<u>\$325,250</u>	<u>\$26,008</u>

**Peoples State Bank – June 2006 – Loan
2005 Caterpillar Motor Grader**

**Terms: Purchase price of \$202,000 at 4.951%
interest from June 2006 to June 2011**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$36,361	\$10,323
2008	38,204	8,389
2009	40,139	6,454
2010	42,172	4,421
2011	<u>45,124</u>	<u>1,469</u>
	<u>\$202,000</u>	<u>\$31,056</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

During 2001, the Alger County Road Commission entered into Act 143, Michigan transportation Fund Revenue Notes payable for the purpose of constructing a new garage and office facility in Munising in the amount of \$2,900,000 with interest from 5% to 8%.

**Michigan Transportation Fund
Notes Payable – Series 2000**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$55,000	\$135,550
2008	60,000	130,950
2009	60,000	126,150
2010	65,000	122,125
2011	65,000	118,875
2012	70,000	115,500
2013	75,000	111,875
2014	75,000	108,125
2015	80,000	104,250
2016	85,000	100,125
2017	90,000	95,750
2018	95,000	91,125
2019	100,000	86,250
2020	105,000	81,125
2021	110,000	75,750
2022	115,000	71,125
2023	120,000	64,250
2024	125,000	58,125
2025	135,000	51,625
2026	140,000	44,750
2027	150,000	37,500
2028	155,000	29,875
2029	165,000	21,875
2030	175,000	13,375
2031	180,000	4,500
	<u>\$2,650,000</u>	<u>\$2,000,525</u>

Annual Maturities on the Long-Term Debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$234,795	\$161,501
2008	235,962	152,476
2009	212,397	137,052
2010	107,172	126,546
2011	110,124	120,344
2012-2016	385,000	539,875
2017-2021	500,000	430,000
2022-2026	635,000	289,875
2027-2031	825,000	107,125
TOTAL	<u>\$3,245,450</u>	<u>\$2,064,794</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE J – CONTINGENCIES

The Road Commission has determined that, as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from ground contamination at their old facility. Although, no claim against the Road Commission has yet been asserted, it is expected that such a claim will be brought against the Road Commission in the future.

Grants – The Alger County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Alger County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Alger County Road Commission at December 31, 2006.

Risk Management – The Alger County Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Alger County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Alger County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Alger County Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Alger County Road Commission is unable to provide an estimate of the amounts of additional assessments.

Required Supplementary Information

Alger County Road Commission

Budgetary Comparison Schedule Statement of Revenues
Budget to Actual

For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 3,000	\$ 2,803	\$ 2,803	\$ -
Total Licenses and Permits	<u>3,000</u>	<u>2,803</u>	<u>2,803</u>	<u>-</u>
Federal Sources				
High Priority	1,786,000	1,764,935	1,764,935	-
SAFETEA Funds	-	167,728	167,728	-
Total Federal Sources	<u>1,786,000</u>	<u>1,932,663</u>	<u>1,932,663</u>	<u>-</u>
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Snow removal	280,818	284,551	284,551	-
Allocation	1,916,917	1,834,935	1,834,935	-
Total Michigan Transportation Fund	<u>2,207,735</u>	<u>2,129,486</u>	<u>2,129,486</u>	<u>-</u>
Critical Bridge Fund	551,000	579,212	579,212	-
Total Critical Bridge Fund	<u>551,000</u>	<u>579,212</u>	<u>579,212</u>	<u>-</u>
Economic Development Fund				
Target industries (A)	470,019	441,234	441,234	-
Forest road (E)	202,190	174,851	174,851	-
Local jobs today	-	41,932	41,932	-
Total Economic Development Fund	<u>672,209</u>	<u>658,017</u>	<u>658,017</u>	<u>-</u>
Total State Sources	<u>3,430,944</u>	<u>3,366,715</u>	<u>3,366,715</u>	<u>-</u>
Contributions from Local Units				
Township Contribution	118,000	109,459	109,459	-
Conservation District	84,870	34,360	34,360	-
Total Contributions from Local Units	<u>202,870</u>	<u>143,819</u>	<u>143,819</u>	<u>-</u>
Charges for Services				
Trunkline Maintenance	885,000	983,744	983,744	-
Trunkline Non-Maintenance	141,000	114,369	114,369	-
Salvage Sales	3,000	18,771	18,771	-
Forest Service	-	58,654	58,654	-
Total Charges for Services	<u>1,029,000</u>	<u>1,175,538</u>	<u>1,175,538</u>	<u>-</u>

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Interest and Rents				
Interest Earned	<u>\$ 22,000</u>	<u>\$ 36,252</u>	<u>\$ 36,252</u>	<u>-</u>
Total Interest and Rents	<u>22,000</u>	<u>36,252</u>	<u>36,252</u>	<u>-</u>
Other				
Land and Bldg. Sales	-	4,200	4,200	-
Sundry Refunds	-	29,110	29,110	-
Gain (Loss) Equipment Disposal.	<u>-</u>	<u>19,102</u>	<u>19,102</u>	<u>-</u>
Total Other	-	52,412	52,412	-
Total Operating Revenue	<u>6,473,814</u>	<u>6,710,202</u>	<u>6,710,202</u>	<u>-</u>
Other Financing Sources:				
Note Proceeds	<u>-</u>	<u>202,000</u>	<u>202,000</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>202,000</u>	<u>202,000</u>	<u>-</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 6,473,814</u>	<u>\$ 6,912,202</u>	<u>\$ 6,912,202</u>	<u>\$ -</u>

Alger County Road Commission

Budgetary Comparison Schedule Statement of Expenditures
Budget to Actual

For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Preservation - Structural Improvements				
Roads	\$ 2,570,259	\$ 2,846,533	\$ 2,846,533	\$ -
Structures	580,000	677,670	677,670	-
Total Preservation - Structural Improvements	<u>3,150,259</u>	<u>3,524,203</u>	<u>3,524,203</u>	<u>-</u>
Maintenance				
Roads	1,280,000	1,064,358	1,064,358	-
Winter Maintenance	-	508,722	508,722	-
Traffic Control	-	50,031	50,031	-
Total Maintenance	<u>1,280,000</u>	<u>1,623,111</u>	<u>1,623,111</u>	<u>-</u>
Total Preservation and Maintenance	<u>4,430,259</u>	<u>5,147,314</u>	<u>5,147,314</u>	<u>-</u>
Other				
Trunkline Maintenance	885,000	841,380	841,380	-
Trunkline Non-Maintenance	35,000	112,955	112,955	-
Administrative Expense	121,000	256,651	256,651	-
Equipment Expense - Net	146,000	445,602	445,602	-
Capital Outlay - Net	(267,500)	2,326	2,326	-
Debt Principle Payment	185,657	138,441	138,441	-
Interest Expense	168,308	20,524	20,524	-
Distributive Expense	770,000	-	-	-
Total Other	<u>2,043,465</u>	<u>1,817,879</u>	<u>1,817,879</u>	<u>-</u>
Total Expenditures	<u>6,473,724</u>	<u>6,965,193</u>	<u>6,965,193</u>	<u>-</u>
Other Financing Uses:				
Transfers to Debt Service	-	192,000	192,000	-
Total Other Financing Uses	<u>-</u>	<u>192,000</u>	<u>192,000</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 6,473,724</u>	<u>\$ 7,157,193</u>	<u>\$ 7,157,193</u>	<u>\$ -</u>

Additional Supplementary Information

Alger County Road Commission

Analysis of Equity

For the Year Ended December 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>Co. Road Comm. Fund</u>	<u>Total</u>
Total Revenues and Other Financing Sources	\$ 4,102,143	\$ 1,419,735	\$ 1,390,324	\$ 6,912,202
Total Expenditures and Other Financing Uses	<u>3,934,549</u>	<u>1,826,986</u>	<u>1,395,658</u>	<u>7,157,193</u>
Excess of Revenues Over (Under) Expenditures	<u>167,594</u>	<u>(407,251)</u>	<u>(5,334)</u>	<u>(244,991)</u>
Optional Transfers	<u>(380,000)</u>	<u>380,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(212,406)</u>	<u>(27,251)</u>	<u>(5,334)</u>	<u>(244,991)</u>
Fund Balance - January 1, 2006	1,074,242	-	234,625	1,308,867
Interfund Adjustment	<u>-</u>	<u>27,251</u>	<u>(27,251)</u>	<u>-</u>
Fund Balance - December 31, 2006	<u>\$ 861,836</u>	<u>\$ -</u>	<u>\$ 202,040</u>	<u>\$ 1,063,876</u>

Alger County Road Commission
 Analysis of Revenues and Other Financing Sources
 For the Year Ended December 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>Co. Road Comm. Fund</u>	<u>Total</u>
Licenses and Permits				
Permits	\$ -	\$ -	\$ 2,803	\$ 2,803
Total Licenses and Permits	<u>-</u>	<u>-</u>	<u>2,803</u>	<u>2,803</u>
Federal Sources				
High Priority	1,764,935	-	-	1,764,935
SAFETEA Funds	167,728	-	-	167,728
Total Federal Sources	<u>1,932,663</u>	<u>-</u>	<u>-</u>	<u>1,932,663</u>
State Sources				
Michigan Transportation Fund				
Engineering	5,000	5,000	-	10,000
Snow removal	-	284,551	-	284,551
Allocation	1,271,943	562,992	-	1,834,935
Total Michigan Transportation Fund	<u>1,276,943</u>	<u>852,543</u>	<u>-</u>	<u>2,129,486</u>
Critical Bridge Fund	199,153	380,059	-	579,212
Total Critical Bridge Fund	<u>199,153</u>	<u>380,059</u>	<u>-</u>	<u>579,212</u>
Economic Development Fund				
Target industries (A)	441,234	-	-	441,234
Forest road (E)	97,177	77,674	-	174,851
Local jobs today	41,932	-	-	41,932
Total Economic Development Fund	<u>580,343</u>	<u>77,674</u>	<u>-</u>	<u>658,017</u>
Total State Sources	<u>2,056,439</u>	<u>1,310,276</u>	<u>-</u>	<u>3,366,715</u>
Contributions from Local Units				
Township Contribution	-	109,459	-	109,459
Conservation District	34,360	-	-	34,360
Total Contributions from Local Units	<u>34,360</u>	<u>109,459</u>	<u>-</u>	<u>143,819</u>
Charges for Services				
Trunkline Maintenance	-	-	983,744	983,744
Trunkline Non-Maintenance	-	-	114,369	114,369
Salvage Sales	-	-	18,771	18,771
Forest Service	58,654	-	-	58,654
Total Charges for Services	<u>58,654</u>	<u>-</u>	<u>1,116,884</u>	<u>1,175,538</u>

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>Co. Road Comm. Fund</u>	<u>Total</u>
Interest and Rents				
Interest Earned	<u>-</u>	<u>-</u>	<u>\$ 36,252</u>	<u>\$ 36,252</u>
Total Interest and Rents	<u>-</u>	<u>-</u>	<u>36,252</u>	<u>36,252</u>
Other				
Land and Bldg. Sales	<u>-</u>	<u>-</u>	<u>4,200</u>	<u>4,200</u>
Sundry Refunds	<u>-</u>	<u>-</u>	<u>29,110</u>	<u>29,110</u>
Gain (Loss) Equipment Disposal	<u>20,027</u>	<u>-</u>	<u>(925)</u>	<u>19,102</u>
Total Other	<u>20,027</u>	<u>-</u>	<u>32,385</u>	<u>52,412</u>
Total Operating Revenue	<u>4,102,143</u>	<u>1,419,735</u>	<u>1,188,324</u>	<u>6,710,202</u>
Other Financing Sources:				
Note Proceeds	<u>-</u>	<u>-</u>	<u>202,000</u>	<u>202,000</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>202,000</u>	<u>202,000</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 4,102,143</u>	<u>\$ 1,419,735</u>	<u>\$ 1,390,324</u>	<u>\$ 6,912,202</u>

Alger County Road Commission
Analysis of Expenditures and Other Financing Uses
For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	Co. Road Comm. Fund	Total
Preservation - Structural Improvements				
Roads	\$ 2,589,446	\$ 257,087	\$ -	\$ 2,846,533
Structures	250,925	426,745	-	677,670
Total Preservation - Structural Improvements	<u>2,840,371</u>	<u>683,832</u>	<u>-</u>	<u>3,524,203</u>
Maintenance				
Roads	519,321	545,037	-	1,064,358
Winter Maintenance	187,822	320,900	-	508,722
Traffic Control	24,902	25,129	-	50,031
Total Maintenance	<u>732,045</u>	<u>891,066</u>	<u>-</u>	<u>1,623,111</u>
Total Preservation and Maintenance	<u>3,572,416</u>	<u>1,574,898</u>	<u>-</u>	<u>5,147,314</u>
Other				
Trunkline Maintenance	-	-	841,380	841,380
Trunkline Non-Maintenance	-	-	112,955	112,955
Administrative Expense	178,125	78,526	-	256,651
Equipment Expense - Net	111,846	173,562	160,194	445,602
Capital Outlay - Net	(119,838)	-	122,164	2,326
Debt Principle Payment	-	-	138,441	138,441
Interest Expense	-	-	20,524	20,524
Total Other	<u>170,133</u>	<u>252,088</u>	<u>1,395,658</u>	<u>1,817,879</u>
Total Expenditures	<u>3,742,549</u>	<u>1,826,986</u>	<u>1,395,658</u>	<u>6,965,193</u>
Other Financing Uses:				
Transfers to Debt Service	192,000	-	-	192,000
Total Other Financing Uses	<u>192,000</u>	<u>-</u>	<u>-</u>	<u>192,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 3,934,549</u>	<u>\$ 1,826,986</u>	<u>\$ 1,395,658</u>	<u>\$ 7,157,193</u>

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Alger County Road Commission
E9264 M-28
Munising, MI 4862

We have audited the financial statements of the governmental activities and each major fund of Alger County Road Commission, a component unit of the County of Alger, Michigan as of and for the year then ended December 31, 2006, which collectively comprise the Alger County Road Commission's basic financial statements and have issued our report thereon dated March 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alger County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alger County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alger County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Alger County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alger County Road Commission's financial statements that

Board of County Road Commissioners
Alger County Road Commission

is more than inconsequential will not be prevented or detected by the Alger County Road Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 06-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alger County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alger County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Alger County Road Commission, in a separate letter dated March 30, 2007.

The Alger County Road Commissions response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Alger County Road Commissions response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 30, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Alger County Road Commission
Report to Management Letter
For the Year Ended December 31, 2006

Board of County Road Commissioners
Alger County Road Commission
E9264 M-28
Munising, MI 49862

In planning and performing our audit of the financial statements of the governmental activities, each major fund of the Alger County Road Commission, a component unit of the County of Alger, Michigan for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Alger County Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alger County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alger County Road Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

Board of County Road Commissioners
Alger County Road Commission

Significant Deficiencies

Inventory

- 06-01 Condition/Criteria: We found that there was not a complete physical inventory count performed regarding parts in the current year. In discusses with the finance director, he noted that they had problems with inventory posting during the year caused by a change in accounting staff and that they are still trying to correct this posting errors.
- Effect: Inventory activity amounts could be misstated.
- Cause of Condition: Failure to monitor inventory transactions for completeness.
- Recommendation: We recommend that a physical inventory be taken on the total inventory annually. Also, we recommend that the Road Commission monitor the inventory on a regular basis.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - James Gariepy, Finance Director
- Corrective Action Planned:
 - The Alger County Road Commission is planning on incorporating the physical inventory counts in the coming fiscal year.
- Anticipated Completion Date:
 - December 31, 2007

This communication is intended solely for the information and use of management, board, others within the organization and any oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company, PLLC
Certified Public Accountants

March 30, 2007